DEPARTMENT OF SOCIAL SERVICES
744 P Street, Sacramento, CA 95814

March 10, 2000

FOSTER CARE AUDITS LETTER 2000-02

TO: **ALL GROUP HOME PROVIDERS**
ALL FOSTER FAMILY AGENCIES

SUBJECT: **ANSWERS TO COMMONLY ASKED QUESTIONS ABOUT THE FINANCIAL AUDIT REQUIREMENTS**

The purpose of this Foster Care Audits Letter is to provide assistance to providers in understanding the regulatory provisions and processes of the financial audit requirements as implemented pursuant to Senate Bill 933[1] (Chapter 311, Statutes of 1998) through an exchange of information in a question and answer format. Please refer to the Enclosure.

We have grouped the information provided in the Enclosure by the following subjects:

The Financial Audits Unit (FAU) continues to offer technical assistance to providers in preparation for the financial audit implementation. Should you be experiencing difficulty in submitting the financial audit report by the due date as a component of your application, please review Questions 3 and 14 of the Enclosure. For further clarification of answers provided to these questions and others in the Enclosure or to obtain additional information regarding the implementation of the financial audit, please contact the FAU staff by calling (916) 274-0455.

Sincerely,

Original Signed by Cora L. Dixon for

JUDY COLBERT, Chief
Foster Care Audits Branch

Enclosure

[1] The implementation of the SB 933 financial audit requirement was deferred pursuant to Assembly Bill 1659 (Chapter 881, Statutes of 1999) until FY 2000/01 in which financial audits must be submitted with rate applications, beginning April 1 and May 1, 2000.

c: African American Foster Parent and Group Home Association
Association of Minority Adolescents in Residential Care Homes of Los Angeles County
Association of Minority Adolescents in Residential Care Homes (AMARCH)
California Alliance of Child & Family Services
Foster Care Alliance
Community Residential Care Association of California
County Welfare Directors' Association
Residential Care Providers Association of Los Angeles County
CPA Listing

ANSWERS TO COMMONLY ASKED QUESTIONS

FILING OF FINANCIAL AUDIT REPORT

Q1 & A

Are all Group Homes (GHs) and Foster Family Agencies (FFAs) required to submit a financial audit report?

Nonprofit corporations that operate GH programs or FFA programs that provide treatment services are required annually to submit a financial audit report as part of the rate application to receive an Aid to Families with Dependent Children-Foster Care (AFDC-FC) program rate, except for a new provider that has been incorporated fewer than 12 months at the time of submitting the rate application.

Q2 & A

When is the financial audit due, and is it required every year?

Nonprofit corporations are required to submit the financial audit report as part of the rate application commencing with rates set for fiscal year (FY) 2000/01.

- For FFAs, on or before April 3, 2000,[1] and on or before April 1 for each year thereafter, and
- For GHs, on or before May 1, 2000, and each year thereafter.

Note: [1]Since April 1, 2000 falls on a weekend, the due date is the next business day, April 3, 2000, pursuant to California Department of Social Services (CDSS) Manual of Policies and Procedures (MPP), Division 11, Section 11-400(d)(8).

***Note*:** FFAs that do not receive their first placement until the period between July 1 and December 31st, after the filing of the initial rate application, are impacted differently. Please see Q6**.**

Q3 & A

What will happen if we don't submit a financial audit report with the rate application by the required due date?

The submission of a financial audit report is a condition of receiving an AFDC-FC program rate. If the financial audit report is not submitted with the rate application by the due date as discussed in Q2 above, and an extension due to the one-time provision for inadequate records as discussed in the note to Q14 has not been granted, the rate application will be considered as an incomplete application. The nonprofit corporation's AFDC-FC program rate(s) then becomes subject to penalties of a delay in the effective date of the rate or possible termination of the rate.

However, the nonprofit corporation, when filing (postmarked) an incomplete rate application by the due date as discussed in Q2 above, may file a request for a determination of good cause (MPP 11-400g.(1)). It is suggested that the request include, but not be limited to, 1) a timeline describing the attempts to obtain the audit, 2) the name of the certified public accountant (CPA) or state-licensed public accountant (PA) hired to do the audit and the date retained, and 3) a copy of the written contract or engagement letter, if applicable. If the CDSS determines that good cause exists and the financial report is subsequently filed timely in response to the CDSS notification, the effective date of the rate becomes July 1 pursuant to MPP Section 11-402.372(a)(1) for GHs and MPP Section 11-403(f)(2)(A) for FFAs. This results in no penalty to the nonprofit corporation.

Q4 & A

We operate three group home programs under our nonprofit corporation. Do we need to obtain one or three financial audits?

Only <u>one financial audit</u> is required for a nonprofit corporation's operations, regardless of the number or combination of GH and/or FFA programs operated. Moreover, the financial audit <u>is not limited to</u> only AFDC-FC programs, but is to include all activities of the nonprofit corporation.

Q5 & A

We were incorporated in Spring 1998 and received a group home program rate shortly thereafter. However, we did not have any clients placed until March 1999 and did not incur any income until March 1999. Are we required to have a financial audit conducted for the first year of operation?

You are required to submit a financial audit report because the incorporation date of the nonprofit corporation exceeds twelve months at the May 1, 2000 due date of the application. However, depending on the accounting period (calendar or fiscal year) selected by the nonprofit corporation, the first year of operation may or may not be included in the audit period. Further, MPP Section 11-405.215(a) provides that if the nonprofit corporation's fiscal year ends less than six months before the audit report is due and it has not previously submitted the audit report for the previous fiscal year, the nonprofit corporation may submit the audit report for the previous fiscal year.

Q6 & A

We were incorporated in January of 1999 and received a FFA program rate shortly thereafter. However, we did not have our first placement until November 1999. Are we required to have a financial audit conducted of the first year of operation?

First, it is important to note the exception that exists for a FFA that does not receive its first placement until the period between July and December 31---an annual rate application is not required to be submitted until March 1 of the second calendar year after the initial placement. In this case, the nonprofit corporation would not be required to file the annual rate application until March 1, 2001; consequently, the first financial audit report would be due on that date. The financial audit to be submitted at that time, pursuant to MPP Section 11-405.215(a), could be for the first year of operation or a different period as explained in Q5 above.

Q7 & A

We currently have only regional center clients in our group home program. We have no children placed under the AFDC-FC program at this time. Do we need to submit a financial audit report with our annual rate application when we apply to continue our program number that was assigned by the Foster Care Rates Bureau, or do we wait until we have an AFDC-FC client placed?

The nonprofit corporation is still required to submit a financial audit report with the annual rate application, as a condition to receive a program rate (number) for the group home program. The program number assigned to your regional center by the Foster Care Rates Bureau (FCRB) allows the group home to receive children whom are both AFDC-FC recipients and regional center clients. Although you may not have ever had this type of placement or not had this type placement in the previous year, the nonprofit corporation becomes subject to the financial audit requirement by receipt of an AFDC-FC program number.

AUDIT STANDARDS

Q8 & A

Our certified public accountant says there are three types of auditing standards that may be used to conduct our financial audit and depending on the one selected, the cost of the financial audit may change significantly. These are referred to as GAAS, GAGAS, and OMB A-133 standards. Please explain these standards and their impact on costs.

- **GAAS** Foster care emergency regulations MPP, Division 11, effective January 1, 1999 through December 29, 1999, adopt generally accepted auditing standards (GAAS). These standards require an opinion or a disclaimer concerning the presentation of financial statements in accordance with generally accepted accounting principles. The audit report consists of an opinion or a disclaimer; report on internal controls if a reportable condition exists; and financial statements, notes and disclosures.

  All financial audits initiated before the final regulations became effective on December 30, 1999, may adhere to the emergency regulations effective January 1, 1999.

- **GAGAS** The final regulations further adopt generally accepted government auditing standards (GAGAS). GAGAS incorporates certain GAAS standards and additional auditing standards. The audit report consists of the opinion or disclaimer; report on internal controls regardless of a reportable condition; report on compliance with statutory and regulatory provisions; and financial statements, notes and disclosures.

  The final regulations became effective on December 30, 1999. All financial audits initiated as of this date must adhere to GAGAS.

- **A-133** Providers are not required by the CDSS to follow standards of the federal Office of Management and Budget (OMB) Circular A-133*, Audits of States, Local Governments and Non-Profit Organizations*. Providers may be required to follow OMB standards to meet the requirements of other governmental agencies. The audit report's content follows the same content listed under GAGAS, with additional reports as required by the federal government.

  The CDSS has published a booklet entitled *Audit Guide for Financial Audits of Group Home and Foster Family Agency Programs* to provide assistance in understanding these standards. Copies may be obtained by contacting the Financial Audits Unit at (916) 274-0455.

ANSWERS TO COMMONLY ASKED QUESTIONS

- Regarding the costs associated with audits conducted under these standards, a GAAS-type audit is normally the least expensive, while the OMB A-133 type audit is normally the most expensive.

ACCOUNTANT PERFORMING THE AUDIT

Q9 & A

What type of accountant may be used to conduct the financial audit?

The financial audit must be conducted by a certified public accountant (CPA) or by a state-licensed public accountant (PA) licensed by the California State Board of Accountancy.

Q10 & A

What if we are unable to retain a CPA/PA to do the audit? Would you provide a list of CPAs and PAs in my area?

The CDSS cannot endorse a particular CPA or PA or firm. A listing of CPAs/PAs in California may be obtained by contacting:

Department of Consumer Affairs
Public Sales Unit
400 R Street, Suite 2000
Sacramento, CA 95814
(916) 323-7018

However, should the leads obtained from contacting the Department of Consumer Affairs still not result in obtaining a CPA, you are advised to contact the Financial Audits Unit at (916) 274-0455 for assistance.

Note: Nonprofit corporations are reminded that there is no additional extension for providing relief to a provider whom has not been able to retain a CPA other than that granted through a request for good cause as discussed in Q3.

Q11 & A

We would like to retain the CPA who prepares our annual income tax return and exemption reports. The CPA asserts that despite this relationship she is independent and allowed to perform the audit. Is this true?

To be eligible to conduct the financial audit, the CPA cannot have a direct or indirect relationship with the corporation which affects or could affect the accountant's independence, objectivity, or integrity, as defined in Rules 101 and 102 of the American Institute of Certified Public Accountants Code of Professional Conduct and the interpretations and ethics rulings under these rules. It is quite likely that she is eligible to conduct the audit. Generally, the rule is that a CPA is not independent if he/she participates in managing the nonprofit corporation or acts in any manner as an employee. However, other circumstances might exist in this case that could cause her to be viewed as not independent based on the authoritative references listed above. It is suggested that a nonprofit corporation protects itself by requiring the CPA to state his/her independence and understanding of the CDSS regulatory requirements regarding the audit in any written contract negotiated.

ANSWERS TO COMMONLY ASKED QUESTIONS

Q12 & A ***What if we don't like the audit report prepared by the CPA or PA?***

Disagreements between the nonprofit corporation and the accountant performing the financial audit are not mediated by the CDSS. Complaints may be directed to the Department of Consumer Affairs at the address provided in Q10, and the nonprofit corporation may decide to obtain another CPA/PA. However, these types of disputes will not afford additional time for filing the financial audit report than that already provided for in the situation of an incomplete application as discussed in Q3. Further, if the dispute involves the type of opinion or disclaimer to be issued by the CPA or PA, it should be understood that the CDSS would not take adverse action based simply on the type of opinion or disclaimer.

Note: Nonprofit corporations qualifying for reimbursement that decide to have a second audit completed are advised that the cost of only one audit is reimbursable.

MISCELLANEOUS

Q13 & A ***How much staff time will this financial audit take?***

The amount of staff time will vary depending on several factors, such as the size of the operation and number of different funding sources. However, the amount of staff time could be substantially reduced provided the following conditions exist:

- An accurate system for recording financial transactions is maintained;
- Supporting documentation for transactions are maintained and easily accessible;
- Appropriate financial accounting controls are in use;
- Standard schedules and reconciliation summaries for assets and liabilities are available;
- Records are kept on the accrual basis of accounting.

REPORTING CONDITIONS

Q14 & A ***What if my CPA says that the financial audit cannot be completed or a report issued because my financial records are in bad condition? Can I get excused or receive an extension from the audit requirement for FY 2000/01 ?***

There is no exception to the financial audit requirement other than that pertaining to new providers as discussed in answer to Q1 or FFAs as discussed in the notes to Q2. If the financial audit cannot be timely completed due to inadequate financial records, a one-time provision provides the opportunity for requesting an extension for filing the financial audit report. However the opportunity to request an extension under this provision has elapsed. Please see the note on the next page for further discussion.

Additional time for filing the financial audit may still be provided as discussed in Q3. Dependent upon whether the nonprofit corporation can obtain a determination of good cause from the CDSS as further explained in Q3, no penalty may accrue. Otherwise, a penalty of a delay in the effective date of the rate will likely occur. In the later case, nonprofit corporations are still advised to file the rate application without the financial audit by the due date. This will be treated as an incomplete application.

Note: MPP Sections 11-402.371(b) for GHs and 11-403(f)(1)(B)(3) for FFAs provide a one-time provision for an extension of time due to inadequate records. The extension of time is not to exceed sixty days from the due date of the rate application. The request for the extension was required to be filed no later than February 1, 2000, and other requirements had to be met. Nonprofit corporations were instructed of this provision through Foster Care Audits Letter 2000-01, dated January 14, 2000. If you requested an extension, a letter was sent by the Financial Audits Unit to inform you whether the extension had been granted. For extensions granted, the letter indicated an extension to either June 1 or July 1, 2000 for filing the financial audit report.

Q15 & A

Does the financial audit period need to correlate to the CDSS reporting period on the form Group Home Program Cost Report (SR 3) or the foster family agency form Total Program Cost Display (FCR 12FFA)?

No. It is not necessary that the audit period of the financial audit report correlate to either cost report. A nonprofit corporation has flexibility in determining its financial audit reporting period, which may be different than a January – December period that is typically required to be displayed on the CDSS cost reports.

Q16 & A

I receive income under my personal business, which is not connected to the nonprofit corporation that operates a group home. Is this income reportable on the corporate income statement?

No. A nonprofit corporation's revenue generating activities are exclusive of personal business income. A nonprofit corporation is not a business owned and operated by individuals, but by a board of directors. Therefore, personal income is not reportable on the nonprofit corporation's financial statements.

COST REIMBURSEMENT

Q17 & A

Are all nonprofit corporations eligible for reimbursement of the audit's cost?

No. Reimbursement for the cost of the financial audit is restricted to nonprofit corporations operating 1) only a GH program(s) with a combined licensed capacity of 12 beds or less, determined on the program with the lowest combined licensed capacity; 2) a GH program(s) with a combined licensed capacity of 12 beds or less, with the additional operation of other programs (e.g., foster family agency) dependent upon gross annual revenues from all programs; and 3) FFAs, without a group home program, dependent upon gross annual revenues from all programs.

ANSWERS TO COMMONLY ASKED QUESTIONS

Q18 & A

Our nonprofit corporation operates a GH program at a RCL 10 with two licensed facilities for a total licensed capacity of 12 beds. One facility has eight beds, and the other facility has four beds. Does our corporation qualify for reimbursement of the cost of the financial audit? How is the reimbursement computed?

The nonprofit corporation qualifies for reimbursement as a GH program with a combined licensed capacity of <u>12 beds or less</u>. The operation of multiple facilities under a single GH program does not preclude the nonprofit corporation from being eligible for reimbursement, assuming that the combined licensed capacity does not exceed 12 beds.

The reimbursement computation is based on licensed capacity and RCL. Pursuant to MPP Section 11-405.223(a), Schedules for Audit Cost Reimbursement, a GH program at a RCL 10 with up to 12 beds is eligible for up to $2,500 or 50% of the actual cost, whichever is less.

Q19 & A

Our nonprofit corporation operates two group home programs with two different Rate Classification Levels (RCLs). One program at a RCL 12 has two licensed facilities, each with four beds, and the other program at a RCL 10 has one licensed facility with four beds. Does our corporation qualify for reimbursement of the cost of the financial audit? How is the reimbursement computed?

The operation of multiple GH programs does not preclude the nonprofit corporation from being eligible for reimbursement, assuming that the combined licensed capacity does not exceed 12 beds. Since the three facilities have a combined licensed capacity of 12 for the two GH programs, the nonprofit corporation is eligible for reimbursement of the audit costs.

The reimbursement computation is based on licensed capacity and RCL. In determining the reimbursement, a GH program at a RCL 12 with the eight beds would normally be eligible for up to $1,500, and the GH program at a RCL 10 with the four-bed facility would be eligible for up to $2,500. However, since the nonprofit corporation has two GH programs with a combined licensed capacity of 12 beds or less, the reimbursement is based on the program with the lowest licensed capacity. Pursuant to MPP Section 11-405.223(a), Schedules for Audit Cost Reimbursement, the GH program with the lowest combined licensed capacity of 4 at RCL 10 is eligible for up to $2,500 or 50% of the actual cost, whichever is less.

Q20 & A

Our nonprofit corporation operates three GH programs with six beds in each facility. Does our corporation qualify for reimbursement of the cost of the financial audit? How is the reimbursement computed?

The nonprofit corporation does not qualify for reimbursement because the combined licensed capacity for the GH program is 18 beds. Only those nonprofit corporations that operate a GH program(s) with a <u>combined licensed capacity of 12 beds or less</u> qualify for reimbursement of the audit costs.

ANSWERS TO COMMONLY ASKED QUESTIONS

Q21 & A

Our nonprofit corporation operates a FFA program that provides treatment services and a GH program with a licensed capacity of 12 beds. Does our corporation qualify for reimbursement of the cost of the financial audit? How is the reimbursement computed?

To determine whether the nonprofit program qualifies, the amount of annual gross revenues must be known. Nonprofit corporations that operate FFAs and other programs (e.g. GH program(s)) are not precluded from being eligible for reimbursement, as long as the licensed capacity of the GH program(s) does not exceed 12 beds.

The reimbursement computation is based on annual gross revenues from all sources. Pursuant to MPP Section 11-405.223(b), Schedules for Audit Cost Reimbursement, a nonprofit corporation with annual gross revenues not exceeding $765,216 is eligible on a sliding scale of $750, $1,500, or $2,500, or 50% of the actual cost, whichever is less.

Q22 & A

How do I obtain the reimbursement for the cost of our audit?

To obtain reimbursement, the **FINANCIAL AUDIT REPORT TRANSMITTAL AND COST REIMBURSEMENT FORM (SR 8)** is to be completed and transmitted with the rate application that is accompanied with the financial audit report. Each year the FCRB sends an annual rate application package to all providers. The SR 8 was included in the packages mailed in January and February 2000.

The SR 8 includes instructions and requires certain documentation to be attached. The documentation includes the following:

- Payee Data Record, STD. 204 (which is also included in the rate package mailing);
  Note: Training and assorted mailings provided by the Financial Audits Unit indicated the name of the form to be Vendor Data Record. A recent revision to the form changed its name to the Payee Data Record. Either version of the STD. 204 will be accepted.
- Invoice(s) for the cost of the audit; and
- Proof of payment(s) (e.g., cancelled checks(s)-front and back, supporting invoice(s) paid in full).

Q23 & A

We have submitted the SR 8 to obtain reimbursement. Who should we contact if we haven't received our reimbursement?

The Financial Audits Unit processes the reimbursements. Upon receipt of the request, an acknowledgement will be sent to the nonprofit corporation. Nonprofit corporations can expect to receive the reimbursement upon passage of the FY 2000/01 State Budget. Questions can be directed to the Financial Audits Unit at (916) 274-0455.